

# CALIFORNIA MEDICAL ASSOCIATION

## NOTICES & REPORTS

### The "Permanente" Plan: Its Organizational Form

THE PERMANENTE system consists of four inter-related organizations together operating seven hospitals, twelve clinics, one research institute (at Belmont) and three rehabilitation centers.<sup>2</sup> Three hospitals\* are under construction.<sup>2</sup> Its medical staff and hospitals furnish medical care and hospitalization to approximately 160,000 people in the San Francisco Bay Area, 50,000 in Southern California and 25,000 in the Portland, Ore.-Vancouver, Wash., area.<sup>3</sup>

The four organizations are:

A. *The Permanente Foundation*: This is the parent body founded on August 1, 1942. It is a "charitable trust" and was created by the California Kaiser Company, a Nevada corporation, for various purposes including furnishing of medical, nursing and hospital care, scientific research and medical education.<sup>1</sup> Its initial capital consisted of the old Fabiola Hospital in Oakland, subject to a mortgage of substantial size. The Foundation is governed by a self-perpetuating board of trustees, the original trustees being Mr. and Mrs. Henry J. Kaiser, their son Edgar, their attorneys, Paul S. Marrin and Thomas K. McCarthy, and two of Mr. Kaiser's business executives, E. E. Trefethen, Jr., and G. G. Sherwood. The Foundation *owns* the various hospitals, clinics and rehabilitation centers. It does not *operate* them, this being the function of the organizations described below. Its revenues are derived from rentals paid for use of its buildings and facilities.

B. *The Permanente Health Plan*: This is the entity that sells medical and hospital care to the public. It is a "non-profit trust" created on September 8, 1945, with an initial capital of \$5,000. Its function is "to enroll members, collect funds and keep records of eligibility."<sup>4</sup> For monthly charges ranging from \$3.25 to \$6.95 it offers medical and surgical

care by Permanente physicians, hospital care in Permanente hospitals and drugs and medicine while hospitalized.<sup>5</sup> Subscribers are charged \$2.00 per home call after the first, \$1.00 per office visit, \$60.00 per confinement and \$15.00 for a tonsillectomy. Dependents must pay \$2.00 per home visit, \$1.00 per office visit, \$95.00 per confinement and \$35.00 for a tonsillectomy. These charges are in addition to the regular monthly fees.<sup>5</sup> The Health Plan obtains the medical care that it sells by purchasing same from the "Permanente Medical Group" and it secures hospital facilities for its subscribers and their dependents by purchase from the Permanente Hospitals, a corporation. Actually, it divides its revenues as follows: A portion (estimated at 40 per cent) to the "Medical Group," another portion (also estimated at 40 per cent) to the Permanente Hospitals, and the remainder it retains for its own administrative and sales costs.<sup>4</sup> The Health Plan is governed by a board of trustees including Kaiser executives, E. E. Trefethen, Jr., G. G. Sherwood and Harry F. Morton, and Kaiser attorneys, Thomas T. Inch and Thomas K. McCarthy.

---

LEWIS A. ALESEN, M.D. . . . . President  
JOHN W. GREEN, M.D. . . . . President-Elect  
DONALD A. CHARNOCK, M.D. . . . . Speaker  
WILBUR BAILEY, M.D. . . . . Vice-Speaker  
SIDNEY J. SHIPMAN, M.D. . . . . Council Chairman  
ALBERT C. DANIELS, M.D. . . . . Secretary-Treasurer  
DONALD D. LUM, M.D. . . . . Chairman, Executive Committee  
DWIGHT L. WILBUR, M.D. . . . . Editor  
JOHN HUNTON . . . . . Executive Secretary  
General Office, 450 Sutter Street, San Francisco 8  
ED CLANCY . . . . . Director of Public Relations  
Southern California Office:  
417 South Hill Street, Los Angeles 13 • Phone MADison 8863

---

\* These hospitals are in San Francisco, Los Angeles and Walnut Creek.

C. *The Permanente Hospitals*: This is a California non-profit corporation organized in February 1948. It was incorporated by three attorneys in the law firm of Thelen, Marrin, Johnson and Bridges which represents Henry J. Kaiser. It leases from the Permanente Foundation the various hospitals and clinics owned by the Foundation. In turn, it receives money from the Health Plan (as above outlined) and from the "Medical Group" for use by the physicians of out-patient departments of the hospitals. It also collects from whatever "private" patients use the Permanente hospitals.

D. *Permanente Medical Groups*: These are or will be partnerships of physicians who furnish medical services to the people who buy the "Health Plan." One such partnership, headed by Dr. Sidney R. Garfield, exists in the San Francisco Bay area. Others, apparently, are planned elsewhere in the state.<sup>4</sup> Senior Permanente physicians are partners, those with little seniority are employees on a fixed salary basis. These physicians are the professional staff serving Health Plan subscribers and families. Their source of income consists of that portion of Health Plan monthly charges that is allocated to the "Medical Group" plus, it is believed, a portion of the *additional* fees paid by Health Plan families for home and office visits, maternity cases, tonsillectomies, etc.

E. *Miscellaneous*: In addition to the big four "Permanente" organizations there are several auxiliaries, such as Kabat-Kaiser Institute, a California non-profit corporation; Royfield Company; Perma-

nente School of Nursing and the research institute at Belmont.

These closely knit enterprises are unique in the application to medical and hospital care of two mass-production concepts: (1) assurance of the large clientele or "market" through prepayment (thus steering subscribers to Permanente hospitals and physicians) with ample revenues from monthly fees plus extra charges of one sort or another, and (2) utilization of surplus funds for expansion and even more expansion (the non-profit trust concept eliminates distribution of excess funds to the founders as well as taxation of such funds—hence, expansion is the only outlet). The economics of the application of industrial mass production techniques to the highly personal, sensitive physician-patient relationship is well stated by Dr. Garfield: "The greatest tribute to this economic achievement is the present loan secured from the banks for our new construction. One million dollars of the new \$9,500,000 projects was donated by the Henry J. Kaiser Company and the Kaiser Steel Corporation. The remainder will be financed by commercial banks."<sup>4</sup>

#### REFERENCES

1. Official Records, County Recorder of Alameda County, Oct. 21, 1942, Book 4302 at page 163.
2. Permanente Foundation Medical Bulletin, Vol. X, Nos. 1-4, p. 6, Aug. 1952.
3. Permanente Foundation Medical Bulletin, Vol. X, Nos. 1-4, pp. 1-3, Aug. 1952.
4. Permanente Foundation Medical Bulletin, Vol. X, Nos. 1-4, p. 5, Aug. 1952.
5. Permanente Health Plan sales literature marked "Form P-101-7-52."